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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item 69 I. D. # 5461

RESOLUTION G-3387

DATE: April 13, 2006

R E S O L U T I O N

Resolution G-3387. San Diego Gas & Electric Company (SDG&E) requests Commission approval of two natural gas storage agreements between itself and Southern California Gas Company (SoCalGas), an affiliate under Sempra Energy, entitled Master Services Contract, Schedule I, Transaction Based Storage Service, dated February 3, 2006. SDG&E's request is approved.

By Advice Letter (AL) 1595-G, filed February 8, 2006.

SUMMARY

In AL 1595-G, SDG&E proposes two storage contracts with its affiliate, SoCalGas, that would provide it with 7,822,461 decatherms (Dth) of storage inventory capacity for the time period April 1, 2006 through March 31, 2007 and 9,000,000 Dth of storage inventory for the time period April 1, 2007 through March 31, 2008. Both contracts specify a price of \$1.35000/Dth Unit Reservation charges for inventory, \$39.00 per Dth/day for injection capacity, and \$11.60 per Dth/day for withdrawal capacity. This resolution approves SDG&E's proposal. Key elements of this Resolution are summarized below:

1. These storage contracts will provide firm storage service for SDG&E's core customers beginning April 1, 2006 through March 31, 2008.
2. Similar to Resolution G-3378 adopted by the Commission on March 17, 2005, SoCalGas is required to establish a memorandum account to track storage charges paid by SDG&E under these agreements to the extent that these charges exceed the rates paid by SoCalGas's own core customers.
3. The charges tracked in this memorandum account will be reviewed in the next SoCalGas/SDG&E Biennial Cost Allocation Proceeding (BCAP).

BACKGROUND

In the Phase 1 decision, (D.) 04-09-022, in Rulemaking (R.) 04-01-025, the Commission established procedures under which natural gas utilities could enter into contracts for firm interstate pipeline capacity and firm storage capacity contracts with affiliates by either the standard advice letter process or by application.

Under the provisions of D.04-09-022, SDG&E filed AL 1595-G on February 8, 2006, requesting approval of two natural gas storage agreements between itself and SoCalGas, an affiliate under Sempra Energy, entitled Master Services Contracts, Schedule I, Transaction Based Storage Service, dated February 3, 2006.

A storage contract should be in place by April 1, 2006 in order to allow SDG&E to begin storing gas during the spring injection season, when demand for natural gas demand dips from winter seasonal highs and it is available economically for storage.

Storage agreements have traditionally been reviewed in the SoCalGas/SDG&E Biennial Cost Allocation Proceeding (BCAP). During the past 6 years, the SoCalGas/SDG&E BCAP proceeding has been significantly delayed for various reasons. The last BCAP decision was issued in 2000. Prior to last year, SDG&E has entered into a one-year storage contract with SoCalGas for an amount of inventory, withdrawal, and injection capacity that has been either mutually agreed upon with DRA, or at least not opposed by DRA. These storage contracts were entered into at market rates, following a similar SoCalGas auction process that SDG&E pursued for the proposed contract.

On January 7, 2005, SDG&E filed an advice letter for the first time requesting Commission approval pursuant to D. 04-09-022 for a Master Services Contract for Transaction Based Storage Service with SoCalGas. Advice Letter 1499-G was protested on several issues, one of which was the fact that the rates SDG&E's core customers were to pay were higher than those SoCalGas charged its core customers. Commission Resolution G-3378 required SoCalGas to record SDG&E costs of storage which were higher than those charged SoCalGas core customers. This amount was to be recorded in a memo account to be reviewed in the next BCAP. Subsequent to Commission approval of Resolution G-3378, SDG&E realized that its storage rate calculations were in error and that the rate SDG&E core customers would pay was actually lower than that paid by SoCalGas core customers. SoCalGas did not establish a memo account.

NOTICE

Notice of SDG&E AL 1595-G was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SDG&E AL 1595-G was timely protested by DRA.

DRA protests AL 1595-G with regard to the price of the storage capacity.

1. On February 28, 2006, DRA filed a limited protest of AL 1595-G on the basis that the rate SDG&E pays for storage services set forth in the contract exceeds the rate paid by SoCalGas' core customers for storage.
2. DRA recommends that the tracking of storage costs in the memo account that was authorized in Resolution G-3378 continue to apply and be maintained in the context of SDG&E's 2006 and 2007 Storage Contracts filed for approval in Advice Letter 1595-G.
3. DRA further recommends that the discussion and findings of fact (FOF #'s 5, 6, 8, and 10) and ordering paragraph (OP #3) set forth within Commission Resolution G-3378 also apply to the SDG&E 2006 and 2007 storage contract.

SDG&E RESPONSE TO PROTEST

SDG&E responded that it does not object to DRA's recommendation to record the cost of storage under the Agreements that are greater than SoCalGas' scaled long-run marginal cost rates.

On March 7, 2006, SDG&E responded to DRA's limited protest to AL 1595-G with regard to recording certain storage costs which apply to the 2006 and 2007 Storage Contracts between SDG&E and SoCalGas. SDG&E pointed out that SoCalGas filed Advice Letter 3603 on March 1, 2006, which proposes to establish the SDG&E Storage Memorandum Account. The memo account would record storage rates paid by SDG&E under the Agreements that are greater than SoCalGas' scaled Long-Run Marginal Cost rates in accordance with Resolution G-3378.

DISCUSSION

The Commission has reviewed SDG&E AL 1595-G, the protest of DRA and the response of SDG&E.

SDG&E filed its proposal for storage contracts in AL 1595-G pursuant to D. 04-09-022 which states that “proposed changes to core storage may be addressed through the standard advice letter procedure.”

In Resolution G-3378, the Commission ordered SoCalGas to establish a memo account to record SDG&E storage rates paid under the storage contracts filed with SDG&E AL 1499-G to the extent that they are greater than the SoCalGas’ storage rates paid by SoCalGas’s own core customers.. Subsequent to the Commission’s approval of Resolution G-3378, SDG&E discovered that its storage rates were actually lower than those of SoCalGas’ core customers. Due to this development, SoCalGas did not establish a memorandum account to track the rate differential SDG&E paid over SoCalGas’ core customers because there was none.

In its protest to AL 1595-G dated February 28, 2006, DRA recommends that the provisions and discussion regarding the tracking of storage costs in a memo account that was established in Resolution G-3378 continue to apply and be maintained in the context of SDG&E’s 2006 and 2007 Storage Contracts. SoCalGas never established the memo account because SDG&E’s storage rates were never higher than those of SoCalGas during the term of the contract filed in AL 1499-G.

On March 1, 2006, SoCalGas filed Advice Letter 3603, which requests approval to establish the SDG&E Storage Memorandum Account (SDGESMA) to record the costs of storage charged to SDG&E for the two-year period beginning April 1, 2006 to the extent that prices under the storage contract are above the scaled long-run marginal cost (LRMC) rates that SoCalGas charges for its own core customers. If Advice Letter 3603 is approved, and SoCalGas establishes the memo account, it will resolve DRA’s protest to SDG&E AL 1595-G regarding the memo account.

In its protest, DRA recommended that the pertinent discussion contained in Resolution G-3378, findings of Fact (FOF 5, 6, 8, and 10) and ordering paragraph (OP #3) also apply to the SDG&E 2006-2007 storage contracts. We will include the intent of Findings of Fact 5,6, 8 and 10 from Resolution G-3378 into this Resolution G-3387.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding stipulated to reduce the 30-day waiting period required by PU Code section 311(g)(1). Accordingly the draft resolution was mailed on March 16, 2006 with a reduced comment period. Comments on the draft resolution were filed by DRA. The draft resolution was revised to include DRA's comments.

FINDINGS

1. With AL 1595-G, SDG&E requests approval of two storage agreements with SoCalGas.
2. DRA filed a limited protest on February 28, 2006 requesting that SoCalGas record storage charges paid by SDG&E under these agreements to the extent that these charges exceed the rates paid by SoCalGas' own core customers and that certain findings of fact contained in Resolution G-3378 be brought forward to the current resolution.
3. SoCalGas did not establish the memo account discussed in Resolution G-3378 because SDG&E's storage rates for the storage season beginning April 1, 2005 did not exceed those of SoCalGas' core customers.
4. SoCalGas filed AL 3603 on March 1, 2006, requesting authority to establish the SDGESMA to record the costs of storage charged to SDG&E for the two-year period beginning April 1, 2006 to the extent that prices under the storage contract are above the scaled long-run marginal cost (LRMC) rates that SoCalGas charges its own core customers.
5. DRA's limited protest is granted.
6. The Commission has assumed that SDG&E would obtain firm storage services, but SoCalGas is the only provider of storage for SDG&E.
7. SoCalGas is SDG&E's affiliate, and is at risk for storage revenues.
8. SDG&E should be able to obtain firm SoCalGas storage service at the same rate as SoCalGas provides to its core customers.
9. SoCalGas is required to record storage charges paid by SDG&E under these agreements in a memorandum account to the extent that these charges exceed the rates paid by SoCalGas's own core customers.
10. Resolution of the charges recorded in this memorandum account will be determined in the next SoCalGas/SDG&E BCAP Proceeding, where storage rate issues are normally discussed.

THEREFORE IT IS ORDERED THAT:

1. The request of San Diego Gas & Electric Company (SDG&E) for Commission approval of two natural gas storage agreements between itself and Southern California Gas Company (SoCalGas), entitled Master Services Contract, Schedule I, Transaction Based Storage Service, dated February 3, 2006, is approved.
2. SoCalGas shall establish a memorandum account to track storage charges paid by SDG&E under these agreements to the extent that these charges exceed the rates paid by SoCalGas's own core customers .
3. Resolution of the charges recorded in this memorandum account will be determined in the next SoCalGas/SDG&E BCAP Proceeding, where storage rate issues are normally discussed.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006.

STEVE LARSON
Executive Director